

Message Text

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PAGE 01 CAIRO 04678 091640Z

51

ACTION SS-25

INFO OCT-01 ISO-00 /026 W

----- 080337

P R 091500Z MAY 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 3862

INFO AMEMBASSY ABU DHABI

AMCONSUL KHAHRAN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

C O N F I D E N T I A L CAIRO 4678

EXDIS

EO 11652: GDS

TAGS: USSAEF EFIN SA US EG

SUBJECT: SAUDI ASSISTANCE IN EGYPTIAN BOP PROBLEM

REF: JIDDA 3169

1. REFTEL WAS RECEIVED IN CAIRO DURING VISIT OF UNDERSEC ROBINSON TO EXPLORE MAGNITUDE AND EXTENT OF ECONOMIC PROBLEMS FACING GOE, AND LIKELIHOOD OF ASSISTANCE FROM OTHER DONORS. TIMING WAS GOOD, AND EMBASSY FOUND COMMENTS ON VIEWS OF SAUDIS AND POSSIBLE STEPS THEY MIGHT TAKE IN SUPPORT OF EGYPT CLOSELY PARALLEL OUR OWN APPRECIATION OF SUBJECT.

TION OF SUBJECT.

2. WITH RETURN OF UNDERSEC TO WASHINGTON, AND HIS ANTICIPATED VISIT TO SAUDI ARABIA AND THEN EGYPT AGAIN LATER THIS MONTH, USG WILL BE IN A BETTER POSITION TO ASSESS SITUATION AND COOPERATION THAT CAN BE ATTAINED IN MEETING IT. SIXTY-DAY PERIOD MENTIONED BY JIDDA IN PENULTIMATE PARAGRAPH FOR DISCUSSIONS WITH SAUDIS IS THEREFORE NOT REALISTIC IN THIS TIME FRAME.

3. EMBASSY OFFERS FOLLOWING COMMENTS ON POINTS MADE REFTEL.

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PAGE 02 CAIRO 04678 091640Z

A. COOLEY-TYPE LOANS FOR AMERICAN JOINT VENTURES IN EGYPT ARE

PROVIDED FOR UNDER OPIC PROGRAM. SUM OF \$10 MILLION HAS BEEN SET ASIDE FOR THAT PURPOSE. WE HAVE FOUND THAT GOE IS RESISTENT TO THIS TYPE OF INVESTMENT EQUITY, SINCE THEY DO NOT CONSIDER IT AS MOVEMENT OF FUNDS INTO COUNTRY, REGARDLESS OF ORIGINAL SOURCE, I.E. AS PAYMENT FOR PL 480 IMPORTS. AVAILABILITY OF POUNDS FROM BOTH PRIVATE AND PUBLIC SECTORS OF ECONOMY, ASSUMING VIABLE INVESTMENT PROPOSAL, IS SUCH THAT NO PROJECT WOULD LACK LOCAL FUNDING. COOLEY LOANS ARE THUS NOT RPT NOT A SIGNIFICANT FACTOR IN SECURING US INVESTMENT.

B. WE CONTINUE TO BELIEVE THAT, WHILE ASSISTANCE TO EGYPT CAN USEFULLY BE PROVIDED ON A BILATERAL BASIS, IT IS BEST ORGANIZED IN SOME SORT OF LOOSE CONSORTIUM BASE ON NUCLEUS OF SIGNIFICANT DONORS, THAT IS SUFFICIENTLY BROAD TO INCLUDE MOST IF NOT ALL POTENTIAL

DONORS, THEREBY INSURING THAT GOE UNDERSTANDS THAT FINITE LIMITS EXIST FOR ASSISTANCE THAT CAN BE OBTAINED. IT WOULD, OF COURSE, BE BETTER IF FINANCIAL AID DEVELOPED IN THIS MANNER COULD BE COORDINATED WITH SOME SORT OF INTERNATIONAL EFFORT, SUCH AS IMF OR IBRD PROGRAM, THAT WOULD PERMIT A FAIRLY CLOSE MONITORING OF ECONOMIC DECISIONS AND THEIR IMPLEMENTATION, BUT THIS DOES NOT SEEM LIKELY OR PRACTICAL AT THIS TIME. HOWEVER, IMF IS VIEWED WITH SUSPICION HERE BECAUSE OF ITS RECOMMENDATIONS FOR REFORM, SOME OF WHICH GOE REGARDS AS POLITICALLY INSENSITIVE.

C. IMMEDIATE PROBLEM IS EGYPTIAN NEED TO MEET SHORT-TERM DEBT OBLIGATIONS IN ORDER TO AVOID DEFAULT AND UNFAVORABLE REPERCUSSIONS THIS WOULD HAVE ON ITS OVERALL CREDIT POSITION. POSSIBLE APPROACH (REFTEL) OF SAUDI GUARANTEE, THROUGH DEPOSITS, OF LOANS BY FOREIGN BANKS COULD - EVEN IF STOP-GAP-BE OF CONSIDERABLE HELP IN THIS SITUATION.

D. WITH RESPECT TO SAUDI INTEREST AND INVOLVEMENT IN MANAGEMENT REFORM WITHIN EGYPT, IT IS CLEAR THAT DONOR NATIONS CANNOT INSIST TOO MUCH ON CHANGES IN INTERNAL OPERATIONS IF PROPER RELATIONSHIPS ARE TO BE MAINTAINED. DONORS WILL TRY TO HELP EGYPT HELP ITSELF; THEY CANNOT TAKE OVER THE ECONOMY. UNDERSEC MADE POINT RE NEED FOR EFFORT TOWARD ECONOMIC/FINANCIAL REFORM. HOWEVER, LACK OF MECHANISM FOR AFFECTING GOE'S ECONOMIC DECISIONS SHOULD IN NO WAY DETER PROVISION

OF SAUDI ASSISTANCE. ISSUE IS OF TOO GREAT AN IMPORTANCE TO EVERYONE
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PAGE 03 CAIRO 04678 091640Z

TO BE SUBSUMED UNDER CONCERN OVER SHORT-TERM MODICIATIONS IN GOE INTERNAL MECHANISMS. NECESSARY LONG-TERM CHANGES WILL NOT HAVE A CHANCE TO TAKE PLACE UNLESS CURRENT CRISIS IS OVERCOME.

E. BEST PROSPECT IS FOR DONORS TO DETERMINE AMOUNT OF ASSISTANCE THAT CAN BE OFFERED, WHICH WILL PROBABLY FALL SHORT OF INFLATED EGYPTIAN EXPECTATIONS. GOE MUST THEN REALIZE THAT THIS IS ALL THAT IS AVAIL-
ABLE AND, HOPEFULLY, SORT OUT ITS OWN PRIORITIES AND REQUIREMENTS.

F. QUESTION DESIRABILITY OF A JOINT SAUDI-EGYPTIAN ECONOMIC
COMMISSION AT THE PRESENT TIME BUT MIGHT BE CONSIDERED LATER ON.
WE DOUBT GOE WOULD WELCOME ANY SUCH SECRET SAUDI INTERFERENCE IN
ITS INTERNAL AFFAIRS. EXCLUSION OF US FROM SUCH A COMMISSION WOULD
DIMINISH OUR ROLE AS CATALYST AND REDUCE POTENTIAL BENEFECIAL
POLITICAL IMPACT OF OUR EFFORT.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, LIQUIDITY (MONETARY)
Control Number: n/a
Copy: SINGLE
Draft Date: 09 MAY 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975CAIRO04678
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750163-0671
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750563/aaaacffw.tel
Line Count: 123
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 75 JIDDA 3169
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 JUL 2003 by CunninFX>; APPROVED <26 NOV 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SAUDI ASSISTANCE IN EGYPTIAN BOP PROBLEM
TAGS: EFIN, SA, US, EG, USSAEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006